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ORT NO. UMTA-MA-06-0049-80-15

UMTA/TSC Project Evaluation Series

The Indianapolis Experience with Open Entry in the Taxi Industry

Final Report
September 1980



Service and Methods Demonstration Program



U.S. DEPARTMENT OF TRANSPORTATION
Urban Mass Transportation Administration and
Research and Special Programs Administration
Transportation Systems Center

NOTICE

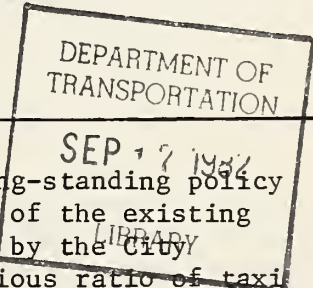
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16. Abstract During the early 1970s the City of Indianapolis reversed a long-standing policy of closed entry into the taxi industry by redistributing many of the existing permits. The open entry action was achieved administratively by the City Controller's Office. Except for the 1970 removal of the previous ratio of taxi licenses to population, no change was made in the existing taxi ordinance and no action was required by Council. This report is an account of the Indianapolis experience with open entry. It is based upon discussions with both Indianapolis officials and members of the taxi industry. Documentation, such as data on the number of taxi licenses, has also been consulted to the extent possible. There is little written documentation, however, because of the fact that the open entry decision was not legislatively enacted and hence not preceded or followed by staff studies. The authors state that there are two lessons that may be learned from the Indianapolis experience: 1) adding new owners into a highly competitive supply-rich market is beneficial neither to the public nor to the taxi operators; and 2) the results of an open entry action are likely to be far different in the long run than in the short run. Thus, while not an easily generalized experience, the Indianapolis case is certainly an instructive one for cities contemplating a similar action.					
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PREFACE

This report describes the Indianapolis experience with open entry. During the early 1970's Indianapolis reversed a long-standing policy of closed entry into the taxi industry by redistributing many of the existing permits. The open entry action was achieved administratively by the City Controller's Office. Except for the 1970 removal of the previous ratio of taxi licenses to population, no change was made in the existing taxi ordinance and no action was required by Council. Indianapolis' open entry took place between 1973 and 1975; following redistribution of the existing permits, entry was once again closed. The report describes the changes in the local industry and regulatory functions as a result of the open entry action.

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Acknowledgement is due to a number of people for their cooperation and assistance in providing information to this report. These include Mr. Randy Wolfson, License Administrator, and Mr. Charles Gebuhr, former License Administrator, as well as Sergeant Gerald Young, Enforcement Office, City of Indianapolis, and Mr. Richard Hunt, President, Yellow Cab of Indianapolis.

METRIC CONVERSION FACTORS

Approximate Conversions to Metric Measures

Symbol	What You Know	Multiply by	To Find	Symbol
LENGTH				
in	inches	2.5	centimeters	cm
ft	feet	30	meters	m
yd	yards	0.9	kilometers	km
m	miles	1.6		
AREA				
in ²	square inches	6.5	square centimeters	cm ²
ft ²	square feet	0.09	square meters	m ²
yd ²	square yards	0.8	square meters	m ²
mi ²	square miles	2.6	square kilometers	km ²
	acres	0.4	hectares	ha
MASS (weight)				
oz	ounces	28	grams	g
lb	pounds	0.45	kilograms	kg
	short tons (2000 lb)	0.9	tonnes	t
VOLUME				
tap	teaspoons	5	milliliters	ml
Tabsp	tablespoons	15	milliliters	ml
fl oz	fluid ounces	30	milliliters	ml
c	cups	0.24	liters	l
pt	pints	0.47	liters	l
qt	quarts	0.95	liters	l
gal	gallons	3.8	liters	l
ft ³	cubic feet	0.03	cubic meters	m ³
yd ³	cubic yards	0.76	cubic meters	m ³
TEMPERATURE (exact)				
°F	Fahrenheit temperature	5/9 (after subtracting 32)	Celsius temperature	°C

Approximate Conversions from Metric Measures

Symbol	What You Know	Multiply by	To Find	Symbol
LENGTH				
mm	millimeters	0.04	inches	in
cm	centimeters	0.4	inches	in
m	meters	3.3	feet	ft
km	kilometers	1.1	yards	yd
		0.6	miles	mi
AREA				
cm ²	square centimeters	0.16	square inches	in ²
m ²	square meters	1.2	square yards	yd ²
km ²	square kilometers	0.4	square miles	mi ²
ha	hectares (10,000 m ²)	2.6	acres	
MASS (weight)				
g	grams	0.035	ounces	oz
kg	kilograms	2.2	pounds	lb
t	tonnes (1000 kg)	1.1	short tons	
VOLUME				
ml	milliliters	0.03	fluid ounces	fl oz
l	liters	2.1	pints	pt
l	liters	1.06	quarts	qt
l	liters	0.26	gallons	gal
m ³	cubic meters	35	cubic feet	ft ³
m ³	cubic meters	1.3	cubic yards	yd ³
TEMPERATURE (exact)				
°C	Celsius temperature	9/5 (then add 32)	Fahrenheit temperature	°F

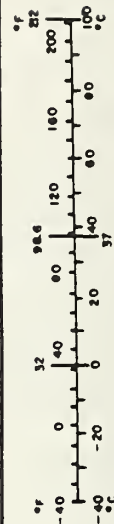


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1.0 INTRODUCTION

This report is an account of the Indianapolis experience with open entry. It is based primarily upon discussions with both Indianapolis officials and members of the taxi industry. Documentation, such as data on the number of taxi licenses, has also been consulted to the extent possible. There is little written documentation, however, because of the fact that the open entry decision was not legislatively enacted and hence not preceded or followed by staff studies.

During the early 1970's the City of Indianapolis reversed a long-standing policy of closed entry into the taxicab industry by redistributing many of the existing permits. This action occurred during a time in which two other relevant changes were also occurring. First, the City of Indianapolis and Marion County merged governments in 1970, creating the Consolidated City of Indianapolis. Second, the local taxi industry was undergoing a transition in which the largest company changed ownership and soon afterwards went bankrupt. Both of these events have obvious relevance to understanding what brought about open entry as well as to the results of the open entry policy.

The Indianapolis regulatory revision does not fit the typical circumstances envisioned by open entry advocates in that taxicab supply was not increased following the open entry action. Rather than having a strong demand for additional permits prior to open entry, Indianapolis had an apparent surplus of permits. In fact, the open entry action was coincident with a net decrease in the number of permits. While the regulatory revision was in fact an open entry action in that permits were made available to anyone requesting one, the regulatory revision might equally well be described as a redistribution of permits.

2.0 PRE-EXISTING CONDITIONS

The kinds of taxicab regulatory and procedural changes implemented in Indianapolis were much less dramatic than those adopted in other localities. These changes, as well as pre-existing conditions within the local taxi industry, are described in the following paragraphs.

2.1 Establishment of a New Permit Ceiling

For many years before the City-County consolidation in 1970, the City had a taxi ordinance which limited the number of taxis to one per thousand residents. Until the late 1960's there were 423 cabs licensed. In 1967 the City granted licenses to a new firm, State Cab. In the 1970 implementation of the Consolidated City-County government, the one-cab-per-thousand-persons ratio was removed from the taxi ordinance and replaced with a ceiling number of 600 licenses. The one taxi firm which had previously been operating in another city within Marion County was given licenses under this new ordinance.

Except for this new ceiling, the ordinance did not change the way in which licenses were to be granted. In both the old and new ordinances the City Controller was given the authority to grant new licenses based upon a finding of public convenience and necessity. Although data are not available on the number of applications for new licenses during 1970-1973, City officials report that there were few applications. No waiting list of persons seeking taxi licenses was--or is--maintained.

2.2 Conditions in the Local Taxi Industry

By April 1972, the number of taxi licenses had increased to 502. Of these, 10 were held by five independent taxi operations; the remaining 492 were owned by five firms. The largest of these firms was Red Cab, which was also the only firm with union drivers. Red Cab had an exclusive contract with the airport to serve deplaning passengers and also served

the entire metropolitan area. Yellow Cab with 51 licenses was the second largest firm and also served the entire city.

A major change was about to restructure the taxi industry, however. Red Cab was sold by its local operator in 1969 along with an auto leasing firm at the airport. The new owners were a Chicago firm. By 1972 they were experiencing financial and service problems to the extent that they were unable to serve the airport adequately and subsequently lost their exclusive contract with the airport. In 1973 their employees went on strike, and in August of that year Red Cab entered bankruptcy and ceased operations.

The Red Cab problems created concern among city officials regarding the condition of the local taxi industry. Prior to the 1970 City-County consolidation, taxi ordinance enforcement had been nil. After the consolidation, the responsibility for taxi enforcement was given to the Controller's Office. After two years of revising the ordinance and passing through a transition period created by the governmental merger, the Controller in April, 1972 was assigned a police sergeant to enforce the taxi ordinance full-time. From that time on, taxi regulations were carefully enforced.

2.3 Genesis of the Decision to Open Entry

There were several reasons for the decision to open entry to new taxi owners. Political forces had relatively little direct role in the decision, although the City administration did favor open competition on a philosophical level. However, there was no particular "champion" of open entry, only a general policy favoring open competition. Probably more important than this philosophical perspective was official concern over the service provided by the industry. Red Cab was deteriorating, and City officials suspected that many licenses were not being used by active cabs. To confirm this suspicion, the Controller's office began checking how many cabs each firm was placing in service. The taxi

ordinance had always required that any permit not in use for over 60 days could be permanently revoked. This provision was the basis for Indianapolis' revocation and reissuance of permits, the actions which constituted its opening of entry.

3.0 THE OPEN ENTRY EXPERIENCE

The Indianapolis open entry decision has two critical aspects. First, it was effected entirely administratively by the City Controller's Office. No change was made in the taxi ordinance, and no action by the City-County Council was taken. Second, the open entry was actually a redistribution--albeit to new owners--of existing licenses. The total number of licenses was not increased as a result of this redistribution.

3.1 Revocation and Redistribution of Licenses

In April, 1973 the Controller revoked 155 licenses on the basis that they had not been in use for over 60 days. Of these licenses, 130 had been owned by Red Cab. During the next eight months, 100 more licenses were revoked from several firms. In August, 1973, Red Cab became bankrupt and ceased operations.

After advertising that new taxi licenses were to be made available to qualified applicants, the Controller issued 125 licenses in May, 1973 and 94 more in April, 1974. The open entry was never intended to become a permanent condition but rather consisted of two separate instances in which new licenses were made available. All of the available licenses were not requested at these times. After the reissuance, the total number of licensed Indianapolis cabs was only 466, a decrease of 76 compared with the 1972 total.

3.2 License Qualifications

The City imposed few requirements on new license recipients; indeed, all applicants obtained licenses. The Controller advertised the fact that licenses were to be issued and welcomed new applicants. To receive a license, a person needed only to pay a fee of \$102, show financial responsibility, have insurance, pass a vehicle safety inspection, have

a unique color scheme, have a place of business, and have a vehicle no more than two years old. This last requirement was not as restrictive as it might seem. Many, if not most, of the new permit holders qualified by purchasing used state police cars at public auction. By financing the vehicles, the new owners were required to have only a modest front-end investment. Neither a minimum number of cabs nor radio communication capability was required.

The open entry action involved 34 "new" taxi owners. Of these, however, only one owner was not a former driver for one of the local taxi firms. Thus, despite advertising that taxi licenses were available and the fact that all applicants were given licenses, the City attracted only one applicant who had not already been in the local industry. This fact, however, does not diminish the importance of the open entry actions in redistributing ownership of the industry to persons who formerly had been employees.

3.3 Results of Open Entry

As with many policy actions, the open entry policy was associated with both short-run and long-term results. Since these two categories of impacts are different in this case, it is necessary to discuss them separately.

The most immediate impact of the open entry has already been mentioned; the local taxi industry was dramatically restructured. Three changes in the industry structure occurred: (1) a net decrease in the total number of licenses; (2) more independent operators, and (3) the emergence of a new firm as the largest firm. The last change is not solely dependent on the City's action; although Yellow Cab purchased 100 licenses during the open entry redistribution, it became the largest firm only because Red Cab went out of business.

The impact of the open entry can be seen by comparing the following figures describing the Indianapolis taxi industry before and after the City's actions.

Table 1
Numbers of Taxi Licenses by Firm Type Before and After Redistribution

	Number of Licenses	
	<u>April 1972</u>	<u>April 1974</u>
Red Cab	302	0
Yellow	51	151
Other Firms	139	158
Independents	<u>10</u>	<u>157</u>
TOTAL	502	466

It should be emphasized that the open entry policy did not introduce independent operators into the taxi industry, although it certainly increased their number. There were 32 independent owners in April 1974 compared to 5 in April 1972. The redistribution also increased competition by raising the number of operators. Prior to the City's actions there were five firms and five independent operators.

The remaining short-run impacts were largely positive. During the first year the open entry appeared to be highly successful as a rainbow of new taxi colors appeared. City officials report that the older fleet responded to the new influx of taxis by upgrading their own cabs. Also, the Red Cab bankruptcy and the open entry diminished the role of the taxi drivers' union, and taxi firms adopted a lease system for their drivers.

The long-run impacts, however, are reported to be far different. Accidents, winter weather, and time combined to deteriorate the appearance and condition of the independent taxicabs. After the first winter the independent operators found that they had no money to maintain or repair their vehicles. Insurance cancellation notices received by the City

Controller's Office increased from "one or two" per month to "about one hundred fifty" per month. Complaints to the City about cab service "tripled" and are estimated to have totaled 5300 during the 1973-76 period. Even ordinary complaints, such as baggage left behind in cabs, became major problems as passengers often were uncertain of the colors of the cab involved, and even if the colors were determined, the cab driver often could not be found. Despite the forms filled out by the taxi license applicants (attached as an appendix), their places of business were frequently changing and their hours of operation were erratic. Service complaints were particularly high in relation to airport taxi business. From the City's standpoint, enforcement became a major problem.

Added to these difficulties was a reported rise in the amount of crime committed by taxi drivers and operators. In 1977 it was discovered that one firm of 18 cabs was operating a drug ring which was the largest such drug operation ever uncovered in the City. At least one prostitution ring run by a taxi operator was also uncovered. The reported rapes and robberies committed by taxi drivers also increased. There are no statistics, however, to document these increases, nor is it certain that these activities were a direct result of open entry. These difficulties combined to reduce gradually the number of independent taxi licenses as well as the total number of taxis. Table 2 summarizes these changes.

Two comments must be made about the figures shown in Table 2. First, the number of independent operators fluctuates as a result of sales of taxis (and licenses) between old and new owners, even though the number of licenses held by the independent owners has been decreasing. Second, the total number of licenses has not been increased as no new licenses have been granted by the City since 1974. The apparent increase in total licenses from 1978 to 1979 is due only to the fact that some licenses were involved in litigation during 1978 and were not counted by the City as active licenses.

Table 2

Total Taxi Licenses, Radio-Equipped Cabs and Independent Operators
and Licenses by Year Since Open Entry

Date	Total No. Licenses	Cabs with Radios	Independent Operators	
			No. Operators	No. Licenses
April 1974	466	*	32	157
August 1975	460	420	20	158
August 1976	431	384	20	130
August 1977	416	355	27	117
August 1978	357	312	28	60
November 1979	360	320	26	65

*The number of radio-equipped cabs before August, 1975 is not available.

Since new licenses have not been issued since 1974, entry is once again closed. It is impossible to know exactly what these changes have meant for the value of a taxi permit. Under the taxi ordinance a taxi license can only be transferred as part of a corporation. That is, taxi permits cannot be sold or traded, but corporations which happen to possess a permit can be sold. Thus, the value of a permit can only be inferred by considering the purchase price for a corporation compared to the assets the corporation owns. No data on such transactions were examined as part of this study, but one City official guessed that the taxi permit value is now in the \$400-\$500 range.

The experience of the independent operators has not been entirely negative. Of the 34 "new" owners, eleven were still in business three years after receiving their licenses. Four of these survived by joining one of the larger firms as owner-operators. The other seven are reported by the Controller's Office as primarily serving "personals" (that is, friends) and the airport.

The current situation is that the industry consists of three firms plus the twenty-six independent operators. Yellow Cab holds 156 licenses; Northside, a long-standing association of owner-operators, holds 71;

and a third organization consisting of State Cab, Metro Cab, Carver Cab, and some independents holds 68 licenses. Sixty-five are held by the other independent owners. The independent operators, with only two exceptions, spend virtually all their time serving the airport and "personals." Yellow Cab serves the entire City, but seldom allows its drivers to wait in line at the airport. Northside primarily serves the predominantly black neighborhoods. Metro primarily serves the same neighborhoods plus the east side and central portions of the City. Of the 360 cabs now licensed, 320 are equipped with radios.

4.0 CONCLUSIONS AND IMPLICATIONS FOR OTHER CITIES

Several conclusions are apparent from a retrospective view of the Indianapolis open entry experience.

1. The Indianapolis decision to reissue taxi permits in 1973 and 1974 constitutes an open entry policy in that permits were given to everyone requesting one.
2. Prior to the open entry decision there was substantial competition and probably a surplus of taxi licenses.
3. The open entry policy occurred simultaneously with a net decrease in the number of licenses.
4. The open entry policy primarily redistributed ownership of the industry to former industry employees.
5. The number of licenses has been decreasing steadily due to attrition despite a steady growth in the population of the City.
6. City officials reflect that they should have imposed more stringent requirements in issuing the licenses. Specifically, they think that they should have required a minimum of ten vehicles per owner and radios in each cab.
7. The entire open entry experience was effected administratively and hence did not involve the City-County Council. Thus it was not subjected to staff studies or to careful documentation.
8. The Indianapolis experience seems to be primarily a demonstration of the difficulties encountered by the City, the public, and the independent operators in a situation in which the operators have little business experience or skills and the requirements necessary for obtaining a license are minimal.

These conclusions point out the obvious difficulty in generalizing from the Indianapolis case to predict what a similar action would mean in other cities. Superficially, one can always assert that any city is unique and hence generalizations are impossible. This response, however, begs the critical question of what other cities can learn from the Indianapolis experience.

One way to provide such insights is to consider the Indianapolis case from the perspective of economic theory. The Indianapolis taxi industry before open entry exhibited extensive competition. Judging from the presence of unused permits and the lack of requests for new permits, the industry also seems to have suffered from too many permits. Against this background, the open entry action differs greatly from that of, for example, San Diego, where permits were actively requested by would-be operators. Although Indianapolis did decrease its total permits while opening entry, this decrease apparently was not sufficient in that the number of permits has continued to decrease. Thus new owners were introduced into a competitive, over-supplied taxi market. Moreover, many of these new owners possessed little or no business experience, which added to their difficulties of competing in a supply-rich market. The result in hindsight is probably predictable: an attrition of licenses; market segmentation with independents focusing on the airport; and some migration of independents to the firms and associations.

This perspective raises several questions. One is whether a similar action in an under-supplied market would have produced the same results. Another is whether independent owner-operators are always forced by scale economies to serve airports and hotels. Still another is whether the new Indianapolis taxi permit holders would have prospered if they had been more experienced entrepreneurs.

Answers to such questions rely mostly on speculation. The San Diego experience will provide some insights into the first question, with the

important distinction that the San Diego taxi industry was much more concentrated than was the case in Indianapolis. Thus, even if the number of permits in Indianapolis had been severely decreased to a level below that required by taxi service demand, the highly competitive conditions may still have made it difficult for new operators to prosper.

The other questions require a better understanding of how independent owner-operators survive in a market alongside of larger firms. History shows that one way is to band together into firms or associations. There are many examples, such as Northside in Indianapolis and Checker in Chicago. Another survival technique has been to serve only selected high density spots, such as airports. This alternative places the owner-operator in the position of being a unified service provider and means that they seldom need or invest in offices, radios and telephones. Both of these survival strategies have been followed by independents in Indianapolis, but neither strategy is in any way unique to this locale.

Two lessons may therefore be learned from the Indianapolis experience. One is that adding new owners into a highly competitive supply-rich market is beneficial neither to the public nor to the taxi operators. Second, the results of an open entry action are likely to be far different in the long run than in the short run. Thus, while not an easily generalized experience, the Indianapolis case is certainly an instructive one for cities contemplating a similar action.

Appendix A: SOURCES OF INFORMATION

The information for this report came from personal visits and telephone discussions with the following persons:

Mr. Randy Wolfson, License Administrator, City of Indianapolis

Mr. Charles Gebuhr, former License Administrator, City of Indianapolis

Sgt. Gerald Young, Enforcement Office, City of Indianapolis

Mr. Richard Hunt, President, Yellow Cab of Indianapolis

In addition, the report is based on written documentation from City Controller's Office files, including data on numbers of licenses, distribution of licenses among firms, descriptions of post-open entry effects, and complaints regarding airport taxi service.

19____ ANNUAL
APPLICATION FOR TAXICAB LICENSE

(To be executed and sworn in duplicate and filed with Controller)

The undersigned makes application to engage in the business of operating taxicabs in the City of Indianapolis, and in support of such application states the following facts:

License or Licenses are requested to be issued to the Owner of Taxicab. Owner shall be the person in whose name the certificate of registration is issued, and shall be the same person named as the insured in all insurance policies.

Name to appear on License. _____
(Submit separate applications for each joint ownership)

IF APPLICANT OWNER is partnership, give name and address of each partner. If a corporation, give name and address of each officer and director, if individual, state name. Also state how operating—
Individual () Partnership () Corporation () (check which).

Name	Office	Address	Phone Number

Address of Owner's principal office or place of business: _____

Address of office receiving calls and responsible for seeing taxicab responds to call on 24 hour basis _____

Address of taxicab office and telephone number _____

What Color Scheme does applicant intend to use on cabs _____

When did applicant first use this color scheme _____ day of _____, 19 _____

What name will appear on cabs. _____

ASSETS		LIABILITIES	
Real Estate.....	\$.....	Common Stock.....	\$.....
Improvements.....	\$.....	Preferred Stock.....	
Less Depreciation.....		Funded Debt.....	
Mach. and Equip.	Notes Payable.....	
Less Depreciation.....		Accounts Payable.....	
Automobile Equipment.....	Taxes Payable.....	
Less Depreciation		Reserves.....	
Furniture & Fixtures	Accrued Liabilities.....	
Less Depreciation		Other Liabilities.....	
Investments.....		Undivided Profit.....	
Accounts and Bills Receivable.....		Surplus.....	
Notes Receivable.....			
Accrued Assets.....			
Cash on hand.....			
Cash in Bank.....			
Inventory (mdse., material and supp.).....			
Total.....	\$.....	Total.....	\$.....

Applicant seeks as Owner: (A) Individual (B) Partnership (C) Corporation, to be licensed to operate the following taxicabs for the year 19..... (Check which). For which licenses were held during previous year—original license, (); transferred licenses (mark transferred licenses with asterisk *).

[illegible]

Present City Taxicab Lic. No.	Make	L. D. Number	Horse Power	Current State Lic. Plate No.	Prior State Lic. Plate No.

What Insurance Company, reciprocal exchange, mutual or indemnity organization will underwrite or insure each of the cabs for which license is being applied for with reference to personal injury.

The liability insurance required in this section shall be not less than the following amounts: \$25,000 per accident for the death and/or injury of any one person; \$50,000 total for the death and/or injury of more than one person in a single accident; and \$10,000 per accident for damage to property. At the time of licensing any taxicab and on the fifth day of each month thereafter, each licensee shall present a fully paid-up and effective liability insurance policy, together with a receipt showing payment of premiums in full, or if the premiums are to be paid in installments, the receipt must show payment in advance for at least the next sixty days or to the termination of the licenses.

Issuing Agent name and address

Will this policy guarantee payment of damages for all accidents because of negligent operation of each taxicab?..

(Submit separate insurance policies for each joint ownership)

What organization will take care of property damage coverage?

What securities do you propose to put up?

Will this arrangement guarantee payment of property damage?

Has each Taxicab been inspected by the Weights and Measures Department for accuracy of taximeter, and by the proper authorities for good mechanical condition? (Certificate should be displayed to City Controller showing such inspection.)

Following affidavit must be executed by an officer of the corporation, one of the partners, or individual having ownership of vehicles, as case may be:

OWNER'S AFFIDAVIT

STATE OF INDIANA, }
COUNTY OF MARION } ss:

_____ being first duly sworn upon his oath states that _____ is the owner of
(name of firm or individual)
the vehicles sought to be licensed in the foregoing application, that he is _____
(state capacity affiant)
of said owner applicant, that said applicant is seeking license or licenses alone, or jointly with _____
and that all statements in the foregoing application insofar as they pertain to this applicant owner are true.

Subscribed and sworn to before me, this _____ day of _____, 19____

Notary Public

My Commission expires _____ 19____

CONTROLLER'S RECORD

Total Number Licenses issued, 19.....,

Transfers

Total Number, 19.....

Insurance

Inspection

RECORD	
Suspension	No.
Complaints	
Arrests	APPLICATION FOR TAXICAB LICENSE
.....	Date , 19
.....	Name
.....
.....
.....
.....	Cab Nos. to Incl.

Appendix C: REPORT OF NEW TECHNOLOGY

REPORT OF NEW TECHNOLOGY

The work performed under this contract, while not leading to any new inventions or patents, has provided new information on the background and implementation of taxicab regulatory and administrative revisions. These research findings will be useful to other communities throughout the United States in the planning of improved transportation services.



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